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SIPDIS

DEPARTMENT FOR EUR/ERA AND EUR/RPM

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SUBJECT: EUROPEAN DEFENSE AGENCY: TAKING SHAPE

Classified By: Deputy Chief of Mission Michael McKinley for reasons 1.4 (b) and (d).

1. (C) Summary: The establishment of a European Defense Agency (EDA) to harmonize moves to boost European military capacity might -- with important caveats -- develop in a way that is in accord with US and NATO interests. However, we should be wary of any EU Member State effort to employ the proposed Permanent Structured Cooperation mechanism, which allows a self-selected group of Member States to participate in advanced defense cooperation projects. US defense industry representatives have expressed concern that such an evolution could have a detrimental effect on the ability of US companies to have open access to the European market. End Summary

The Goal: A Continental-Scale Defense Market

2. (U) EDA was established by European foreign ministers in November 2003. As outlined, the EDA's essential functions are: identify European defense capability objectives and priorities and recommend and evaluate Member State contributions; and address the fragmentation and inefficiencies of the European armaments industry by fostering collaboration and harmonization among Member States in the area of military procurement and production. The stated goal is the "continental-scale demand and market which industry needs." The EDA is not intended to serve as an EU procurement agency.

Organizational Structure

3. (U) The EDA currently exists only on paper. A study prepared by the Agency Establishment Team in April 2004 has proposed an organizational structure for the agency. Its decision making arm would be comprised of a Steering Committee, whose members include the Defense Ministers of participating Member States. Javier Solana, the EU's High Representative for Common Foreign and Security policy, will chair the committee. EDA is ramping up rapidly: there are presently 80 staff members, and this number is projected to increase to over 200 during 2005.

EDA Currently Only Empowered to Make Recommendations

4. (SBU) The EDA will be only empowered to make recommendations; as such, in the early stages it will function as little more than an advisory group - although it will be able to exert political pressure on Member States through EU channels. The Agency Establishment Team paper states that Steering Committee decisions will identify priorities and approaches for a group of, or all, participating Member States to pursue, without compelling any to do so. The paper emphasizes that the EDA should "face outwards" and that "complementarity and transparency with NATO will be assured."

Three Possible Paths of Development

5. (C) Our interlocutors in Brussels suggest there are at least three possible paths of development for this nascent arms agency. One would be consistent with current EU literature and would be in the best interests of the US and NATO. The second path would entail the EDA gaining the powers necessary to intervene directly in the European armaments market, which could open the door to protectionist policies, centralized EU arms procurement, and possibly even the development of a "fortress Europe." NATO standards, commitments, and interoperability would be at risk. A third foreseeable path is for a group of participating Member States to move ahead of the others in the establishment of an interventionist armaments policy, which could entail, for example, Franco-German collaboration on the creation of a larger-scale and protected armaments industry in these two countries. The EDA would provide the mechanism for the advanced "structured cooperation."

Path 1: EDA As an Advisory and Advocacy Group

16. (SBU) Many EU member states remain reluctant to cede national competence in defense-related areas. Given the limits on EU jurisdiction in defense, this may reduce the EDA's ability to mandate changes in national defense policy or Member State collaboration. Nonetheless, the EDA could very well encourage Member States to work together on defense projects, and even eventually pressure them to make purchases without regard to national preferences. The agency is likely to suggest policies designed to promote the harmonization and consolidation of the EU defense industry. Because of the strong attachment of many Member States to NATO, the EDA could face resistance if it pressed policies that would not complement Alliance goals. If the EDA were to succeed in increasing the productivity of the EU arms industry and the interoperability of Member State defense forces in a way that is consistent with NATO standards and requirements, this could increase European military capabilities and those of NATO at the same time.

17. (C) We are told that European political integration is as much of a driving force behind the EDA as the desire for military development. Although the EDA's stated purpose is to increase the efficiency of the European armaments industry, many Brussels insiders see this goal as subordinate to that of simply creating a new area of cooperation among EU Member States. Some in Brussels are also intent upon achieving eventual decisionmaking autonomy from the Member States in the realm of defense planning; and the EDA represents one way in which it could achieve this goal. By itself, this does not necessarily mean that EU policy will move in directions incompatible with US and NATO interests. Greater EU authority and Member State cooperation could be achieved without necessarily embarking upon controversial policies that would undermine status quo Member State commitments.

Path 2: Fortress Europe: Possible, But Hard to Pull off

18. (C) Some supporters of the EDA envisage a more powerful and interventionist organization, one that could run counter to US and NATO interests. Given the imbalance between the EDA's stated task and the means at its disposal, the creation of the "continental-scale demand and market" will likely require far more coercive policies than those laid out in the EU literature. Effective creation of continental demand in the long run would require the centralization of European arms procurement at the EU level, and a decision by Member States to 'buy European first.' In the competition for the modern fighter aircraft sales in new EU member states, for instance, the arguments to "buy European" were a factor in decisions taken. Taken to extremes, centralization of European procurement efforts could also lead to subsidization of European arms manufacturers. The EDA could also recommend that Member States standardize their equipment in a manner incompatible with US manufacturing capabilities.

Path 3: Structured Cooperation An Open Door to Stronger EDA

19. (C) Brussels contacts have suggested that another direction the EDA could take would be for a small group of EU Member States to decide to engage in what is referred to as Permanent Structured Cooperation (PSC). PSC is contained in the draft EU Constitution, which is now subject to member state ratification, a process that will take at least two years. This proposed ESDP mechanism would allow Member States who so desire to make more binding commitments to each other in the area of defense cooperation. Although vague, it could offer an open door to the establishment, under EU-auspices, of a more consolidated, unified -- and possibly protected -- defense program within any group of Member States. France and Germany, for example, may be able to use the EDA as a vehicle to centralize procurement and capabilities/industrial planning. Moreover, other Member States, facing the prospect of a capabilities gap between their own forces and those of the group engaged in PSC, could decide to join the group in question. Late-stage participation in PSC is explicitly allowed under the new European Constitutional treaty, although only with the approval of those Member States already engaged in it. There is nothing in the status quo to prevent member states from cooperating in the areas of procurement or defense industry planning, but to do so under the umbrella of the EU is currently prohibited.

110. (SBU) Predicting PSC is difficult. The language concerning its operation in the Constitutional Treaty is vague; it seems to allow what was in earlier drafts more clearly specified. That is, once the Council votes through qualified majority voting (55% of Council representing 65% of EU population) to establish PSC, the participating states will have a free reign to pursue whatever ESDP policies they can agree on. The Constitutional Treaty states that decisions adopted within the framework of PSC will be voted on only by those states participating in it and not by the Council as a

whole. We have been told that the standard for participation in PSC, as laid out in the newly approved protocol governing its operation, is the ability to make a "tactical contribution" to an EU defense force, so participation in the Battlegroups initiative would be an obvious way to gain general PSC eligibility. As noted in USNATO 746, meeting the standards necessary to participate in Battlegroups could enhance EU Allies' military capabilities. A possible downside, however, would be for Battlegroup nations in a PSC format to use the EDA to move forward in defense collaboration, possibly in a way that would be incompatible with their commitments to NATO and/or negatively affect the arms trade between the US and the relevant EU Member States.

EDA a Source of Apprehension For US Defense Corporations

11. (SBU) At a recent meeting here in Brussels of Amcham EU, the European arm of the American Chamber of Commerce, representatives from the European branches of several major American defense companies - including Boeing, GE, and United Technologies - voiced their concerns over the EDA and its possible connection to what they see as a growing tendency in the EU to increase the defense contract share of EU companies to the detriment of their US counterparts, often as a result of direct political pressure. US defense company representatives suspect that the EDA will compound their already significant problems in the European market, providing a new and more effective vehicle for European governments to intervene in the procurement process in favor of European contractors.

Comment

12. (C) EDA is in its formative period. If it results in a structure that will allow European allies to pool their resources more effectively, and provide an EU-veneer for increased (or at least more efficient) European military procurement, it could dovetail with US security goals. The traditional fragmentation and in-fighting among European defense industries is a clear limiting factor in building genuine European capabilities that will need to be overcome. That same fragmentation will also limit the EDA's ability to bring about meaningful consolidation. But we also expect that EDA will result in political pressures to pool EU resources to "buy European." As part of our effort to monitor the evolution of the EDA, Paul Collins, seconded from the EU Military Staff to work on the establishment of the agency, was invited to attend a ten-day voluntary visitor program from September 20 to October 15 2004. His US visit may -- if it takes place -- afford an opportunity to share our perspectives and register our concerns.

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